

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER**

**AUDIT OF INTERNAL CONTROLS
OVER UNDELIVERED MAIL
AND ADDRESS CHANGE PROCESSES
AT THE OFFICE OF TAX AND REVENUE**

OFFICE OF INTEGRITY AND OVERSIGHT



FINAL

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Office of Integrity and Oversight

MEMORANDUM

TO: [Redacted] Deputy Chief Financial Officer
Office of Tax and Revenue

FROM: [Redacted] Executive Director
Office of Integrity and Oversight

DATE: January 3, 2012

SUBJECT: FINAL REPORT on the Audit of Internal Controls over Undelivered Mail and Address Change Processes at the Office of Tax and Revenue (**Report Number: OIO-10-2-26-OTR**)

Attached is the final report summarizing the results of the Office of Integrity and Oversight's (OIO) audit of Internal Controls over Undelivered Mail and Address Change Processes at the Office of Tax and Revenue (OTR).

Our report contains eleven recommendations for necessary actions to correct the described deficiencies. We received a response to the draft report from the Deputy Chief Financial Officer (CFO) of OTR on December 15, 2011. The Deputy CFO's comments set forth planned corrective actions that should be responsive to the recommendations. The full text of DCLB's response is included at Exhibit 2.

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions please contact [Redacted], Director of Internal Audit, at (202) [Redacted] or me at (202) [Redacted].

cc: Natwar M. Gandhi, Chief Financial Officer, Government of the District of Columbia
[Redacted] Chief of Staff, Office of the Chief Financial Officer
[Redacted] Chief Information Officer, OCIO
[Redacted] Chief Risk Officer, Office of the Chief Financial Officer

Audit of Internal Controls Over Undelivered Mail and Address Changes

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Executive Summary

OVERVIEW

This report summarizes our audit of the Office of Tax and Revenue's (OTR) process of handling undelivered mail and address changes for individual and business tax entities. The Office of Integrity and Oversight (OIO) conducted this audit as part of its continuous audit coverage of the OTR's operations.

The primary objectives of our audit were to determine whether: (1) effective internal controls are in place for processing undelivered mail for all OTR functional offices; and (2) effective internal controls are in place to provide reasonable assurance that the address change process is free from errors or fraud.

OIO issued a management alert specifically for the process of handling undelivered mail by the Real Property Tax Administration (RPTA). Management Alert Number MAR 2-26-OTR was issued to OTR on February 2, 2011 and identified the lack of an address cleaning process on RPTA's mailing database. OIO provided four recommendations to address the weaknesses and help improve the administration's attempts to reduce undelivered mail.

CONCLUSION

OIO identified five internal control issues in its review of the OTR's undelivered mail and address change process for individual and business tax entities, as follows:

1. Taxpayer mail suppression is not reviewed.
2. Systemic weaknesses in the Integrated Tax System (ITS) hinder the delivery of mail to taxpayers.
3. "Best Known" taxpayer addresses are not always used.
4. Certain OTR employees are able to update their own addresses in ITS.
5. ITS data integrity requires improvement.

The above mentioned internal control weaknesses were caused by: (i) a lack of management oversight and analysis; (ii) an over reliance on ITS to automatically select the right mailing address and deal with mail suppressions; and (iii) lack of data integrity in the mailing address fields.

SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS

This report contains eleven (11) recommendations which address the findings identified during the audit. Four recommendations are directed to the Deputy Chief Financial Officer, Office of Tax and Revenue (DCFO, OTR) and include (1) development of policies and procedures for reviewing mail suppressions; and (2) requiring the Returns Processing Administration (RPA), Customer Services Administration (CSA), and Compliance Administration (CA) management to

Executive Summary

conduct regular quality control reviews on ITS' data integrity, including tax payers' primary and mailing addresses.

We also addressed seven recommendations jointly to the DCFO, OTR and the Chief Information Officer's (CIO's) Tax Systems Group (TSG). These recommendations center on: (1) reviewing the ITS mailing hierarchy tables to ensure that OTR has the correct and up-to-date taxpayers' mailing addresses in the ITS database; and (2) reviewing the ITS mailing program to ensure that it generates the correct addresses on the outgoing mailing labels.

MANAGEMENT RESPONSE AND OIO COMMENTS

As noted in the OTR response, management has generally concurred with OIO's recommendations and has implemented or plans to implement corrective actions detailed in the attached document below. We find OTR's corrective actions to be responsive to our recommendations. The full text of the OTR's response is included at Exhibit 2.

Introduction

BACKGROUND

The Office of Tax and Revenue is responsible for generating approximately one million or more business notices and/or bills on a yearly basis (OTR generated 1,010,699 notices/bills in 2009). Of the mail sent, OTR receives approximately 53,000 pieces of returned mail per year on a five-year average basis (for FY 2009, it was 55,688 pieces). The Real Property Tax Administration (RPTA) accounted for 70% or 37,000 pieces of the returned mail received on a five-year average basis. The next largest portion of undelivered mail (29% or 15,000 pieces) was for the Compliance Administration, and the remaining portion (1% or 1,000 pieces) was for Customer Service Administration.

Undelivered mail is obtained from the US Postal Service (USPS) through the District's Department of Real Estate Services and the Office of the Chief Financial Officer (OCFO) Office of Management and Administration Logistic & Support Division, and delivered to OTR Returns Processing Administration (RPA) Receipts and Control Unit for processing. The processing of undelivered mail involves the sub-tasks of counting, sorting, cutting, delivering (to other units of OTR), and reporting (the number of undelivered mail processed daily and accumulated and reported on a calendar year basis).

We understand that there is no general OTR statistics available on why mail is undelivered, but a study done by RPTA for the period August 23 through October 1, 2010 revealed that about 8% of the returned mail were shown with forwarding address or corrected address on the USPS returned mail labels, 43% of the returned mail was without forwarding address and have a USPS "undelivered" label although the address matches the address on the RPTA bill, and 40% of the returned mail was without a forwarding address and have a USPS "undelivered" label that has a mailing address that does not match the RPTA bill.

When mail is returned by the post office, OTR records the mail as returned using the "mail suppression" feature in ITS, so that in the future, mail is not sent to the same incorrect address. When a new address is provided by the USPS, OTR updates the ITS profile window with the new mailing address and resends the notice (Collection Division written procedure).

The taxpayer's address information is stored in a relational DB2 table in ITS. The taxpayer's address change is data captured from returns using a "change of address" bubble on the paper form, or via a written change of address. The "change of address" bubble was removed in TY2007 from all forms, and data capture of all address information was requested by the Returns Processing Administration (RPA). New ITS client taxpayers information, including the address, is data captured, and a new profile is created in ITS.

To ensure OTR is mailing notices and/or bills to the updated and current addresses, OTR has a memorandum agreement with the U.S. Internal Revenue Services (IRS) where OTR, on a regular basis, requests the IRS to provide OTR with the IRS Taxpayer Address Request (TAR) Tickler

Introduction

File for address change data. The program updates addresses in ITS where the taxpayer's address has not updated in the last 18 months in the ITS mailing address database. However, this address cleaning process is only applied for individual income tax types mailing addresses and we understand that as of March 10, 2009, the TAR process does not release suppression for bills/notices. Once the ITS mailing address update is done, an exception report is produced showing abnormal mailing addresses such as foreign addresses, or addresses with no apartment/condo numbers. The Compliance Administration would review the exceptions visually; however, they would make no changes to the system because to change the file would require third-party (e.g., taxpayer) confirmation of the actual mailing address change.

On February 2, 2011, we issued our management alert on Lack of Address Cleaning Process on Real Property Tax Administration Mailing Database at the Office of Tax and Revenue (Report No. MAR 10-2-26-OTR).

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objectives of our audit were to determine whether:

1. Effective internal controls are in place for processing undelivered mail for all OTR functional offices; and
2. Effective internal controls are in place to provide reasonable assurance that the address change process is free from errors or fraud.

The audit included the examination and testing of OTR undelivered mail and related documentation during the period October 14, 2010 through April 25, 2011.

To accomplish our objectives, we obtained written procedures of processing undelivered from various administrations of OTR, interviewed the relevant officers who dealt with undelivered mails on day-to-day basis.

We obtained a list of ITS suppressions with accounts receivables (as of January 7, 2011) and performed test work on selected suppressed taxpayers. We performed testwork on samples of undelivered certified mail issued by the OTR Compliance Administration Collections Unit to determine: (i) USPS explanation for the undelivered certified mail; (ii) whether the ITS has a newer address than the one used for the certified mail.

In addition, we performed testing on matched addresses derived from a comparison of OTR Employees addresses and ITS Tax Payer Entities addresses changed by OTR employees (ITS data warehouse query as of April 13, 2011) to determine whether there are valid reasons for the matched addresses.

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Findings and Recommendations

FINDING 1: TAXPAYER MAIL SUPPRESSION

SYNOPSIS:

OIO obtained a report of suppressed mail with accounts receivable and found 4,063 line items of suppressed mail with an accounts receivable value of \$10,057,616.90 as of January 7, 2011. These mail suppressions were done during the period of 2005 to 2008. Our examination of the ITS electronic supporting documentation of the mail return suppression with accounts receivable revealed that the validity of the mail return suppressions and the bona fide existence and collectability of the related accounts receivable are in doubt as they are old and may have been overtaken by recent events. This issue was also identified in the meeting notes of ITS Modernization Specification interview with the Collection Managers, dated September 30, 2009 which noted, "once a suppression has been initiated, no one turned it off" (i.e., a notice could be suppressed in ITS because of it was undelivered, and it would stay suppressed, even though the taxpayer submitted a new return with a new address). Our audit revealed this condition still exists.

DISCUSSION:

The OTR has the ability to suppress mail to taxpayers that has been returned or undelivered. When an entity or tax period is suppressed, further correspondence to the taxpayer is not generated until the suppression is manually released by an employee. OIO reviewed a sample of 60 entities that were listed with suppressed mail associated with accounts receivable. OIO noted 34 entities (57%) out of the 60 reviewed, were exceptions that should be reviewed to ensure that the reasons for the mail return suppression are still valid, and that the related accounts receivable existence are still bona fide and collectible. Specifically, we noted the following:

- a) 20 entities (33%) of the 60 sampled had evidence of subsequent return submissions and/or payments; therefore, the accounts receivables and the mail return suppressions should be reviewed.
- b) 7 entities (12%) of the 60 sampled have supporting documentation that show the OTR is in the process of settling with the taxpayers, or the receivable is being written off.
- c) 7 entities (12%) of the 60 sampled have receivables that are more than 10 years old since the related tax assessment noted in ITS. These accounts receivables may not be collectible as they already exceed the statute of limitations.

This issue may be attributed to the fact that mail suppressions are not systemically released upon receipt of new information and OTR does not perform a routine review of suppressed mail.

Findings and Recommendations

RECOMMENDATION:

1. The DCFO, OTR direct the Compliance and Customer Service Administrations to remove the unnecessary mail suppressions by the following actions:
 - (a) Request the CIO/TSG to produce a report of ITS mail suppression with accounts receivables (by tax payer entities) for review by the Compliance Administration and ITS mail suppression (by tax entities) for review by the Customer Service Administration.
 - (b) Direct the administrations to systematically review the reports to determine: (a) whether the mail suppression reason is still valid; (b) whether the accounts receivable is still collectible. Based on these results, suppressions should be removed as necessary.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 1)

OTR will ask the CIO/TSG to produce reports of ITS mail suppressions with accounts receivable (by taxpayer entities) and ITS mail suppressions (by tax entities) for review by the respective administrations. They will be directed to determine the validity of the suppressions and based on those determinations make the necessary adjustments. It is anticipated that the reviews will begin in February and will take several months to accomplish without disrupting the work requirements during the filing season. We would anticipate a catch up date for reviews of June 30, 2012.

OIO Comment

OTR planned corrective action is responsive and meets the intent of the recommendation, when fully implemented.

Findings and Recommendations

FINDING 2: DELIVERY OF MAIL TO TAXPAYERS

SYNOPSIS:

We found deficiencies in the address update program and data integrity that hinder the ability to provide timely correspondence to taxpayers.

DISCUSSION:

The OTR does not maintain statistics on why mail is undeliverable to taxpayers. To gain an understanding of why mail is returned to the OTR, OIO performed a walkthrough of the returned mail process in Compliance, performed a test of manual address changes and reviewed policies and procedures. Our testing revealed the following deficiencies:

1. *ITS Taxpayer Address Update Process Is Not Functioning Properly*

Our test work found that USPS is unable to deliver the certified notices generated by ITS mailing program because the mailing addresses generated by ITS were derived from outdated information. This can be attributed to the fact that the ITS program [REDACTED] (new address from current TY returns) only updates the mailing address as it was set up in the mailing program hierarchical table and does not update taxpayer's primary addresses as is done when the address is updated by OTR personnel (TP info); [REDACTED] (TSC) program; or the [REDACTED] (Conversion) program. However, the mailing program sometimes will use the primary address to generate mailing labels. We also noted undelivered mail due to bad address because ITS presumes that the taxpayer's tax return for the following tax year is equivalent to notifying OTR for his/her new address – even if the taxpayer made minor changes such as omitting the apartment number in the current tax return (the omission should have been noted and corrected when the RPA Code and Edit Unit Tax Examiner reviews the tax return during the scanning process).

A sound business administrative practice would require that the ITS program that updates the new address from a current tax year return should properly update the Taxpayer's primary and mailing addresses where the current tax return capture the correct and more up-to-date information about the taxpayer address.

2. *Blank Address Field in ITS*

Our ITS address change query yielded 2,467 tax entities with blank address fields (i.e., 2% of the total population of 110,203 records). Further investigation of these blank address fields indicated the blank addresses were caused by "manual updates" done when

Findings and Recommendations

OTR employees adding "related party" information in Tax Administration System (TAS) did not complete the process to fill the profile. In other words, the employees canceled out of the next window (address information) that appears to complete the profile. Discussion with the Customer Service Administration personnel revealed that some of the employees are not aware that the completion of the profile is mandatory.

The procedures for adding "related party" information as stated in the ITS help module require that the address detail information be completed when the "Address Detail Window" opens. Related party functionality was created in order to record a relationship for an OTR client. This was primarily done in response to the users' request to have the related party receive copies of any correspondence issued from OTR as a copy recipient (e.g., taxpayer's attorney).

3. *IRS TAR Address Change Update Process Not Functioning Properly*

Once the Taxpayer Address Request (TAR) update is done, an exception report is produced showing abnormal mailing addresses such as foreign addresses, or addresses with no apartment/condo numbers. We understand that the Compliance Administration reviews the exceptions visually; however, they do not make changes to the system because to change the file would require third-party (e.g., taxpayer) confirmation of the actual mailing address change.

Exception reports should be reviewed on a regular, consistent, and cost effective basis by the relevant users.

RECOMMENDATIONS:

The DCFO, OTR and the CIO jointly take action to:

2. Review the ITS mailing program hierarchical table that updates new address from current tax year (TY) returns to ensure that the program updates the taxpayer's primary and mailing addresses where the current tax return captures the correct and more up-to-date information about the tax payer address so that ITS generates correct and proper USPS mailing labels for OTR outgoing mail.
3. Develop and maintain statistics on how many pieces of returned mail are processed and resolved (i.e., the release of mail return suppression) by OTR on a regular basis to timely identify problems with the mailing programs.
4. Produce a report of taxpayers with blank address fields on a regular basis.
5. Direct the appropriate OTR administration (Customer Services/Return Processing) to review the report, and to determine: (a) whether those taxpayers

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address field should be blank, or perform the necessary corrections; (b) conduct training classes for those OTR employees who are consistently updating taxpayers' related party address fields to "blanks".

6. Amend ITS taxpayer's address fields manual "related party update" program so that "blanks" are not allowed, unless it is specifically end-dated, suppressed, and explained. A cost benefit analysis should be performed prior to any amendments.

7. Review all TAR exceptions reports promptly and update "best known" taxpayer addresses.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 2)

OTR has asked CIO/TSG to review the mailing program hierarchical table to determine if it updates the new address from current tax year (TY) returns to ensure the program updates the taxpayer's primary address. If it is not making the corrections, we will ask TSG for a level of effort to make corrections and will request changes as appropriate. This review should be completed by January 2012.

OIO Comment

OTR planned corrective action is responsive and meets the intent of the recommendation, when fully implemented.

Management Response (Recommendation 3)

OTR has developed a chart to track the pieces of returned mail and how they are processed and resolved. We will attempt to identify root causes of the returned mail. This will be an ongoing process.

OIO Comment

OTR planned corrective action is responsive and meets the intent of the recommendation.

Management Response (Recommendation 4)

We have asked TSG to develop a report that is produced monthly to identify the taxpayer accounts with blank address fields. We will attempt to identify the cause for the blank fields and, if possible, the area responsible for their generation. This will be an ongoing process.

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OIO Comment

OTR planned corrective action is responsive and meets the intent of the recommendation.

Management Response (Recommendation 5)

OTR will direct all appropriate administrations to review the report and determine if the blank field resulted from their actions and if the blank field is appropriate. If a blank field is appropriate, we will try to determine why the employee thought it should be blank, and we will hold training sessions to re-educate the employees on the proper entry procedures. We expect to complete this by June of 2012.

OIO Comment

OTR planned corrective action is responsive and meets the intent of the recommendation, when fully implemented.

Management Response (Recommendation 6)

OTR will have CIO/TSG do a cost benefit analysis and level of effort study of the issue and determine if it will be prudent to make any modifications to the system. We will make the study and our decision known to OIO by June 30, 2012.

OIO Comment

OTR planned corrective action is responsive and meets the intent of the recommendation, when fully implemented.

Management Response (Recommendation 7)

We will have all TAR exceptions reports reviewed timely and the taxpayer addresses updated to the "best known" address.

OIO Comment

OTR planned corrective action is responsive and meets the intent of the recommendation.

Findings and Recommendations

FINDING 3: "BEST KNOWN" TAXPAYERS' ADDRESSES

SYNOPSIS:

OIO found that the "Best Known" address was not always used to mail notices to taxpayers, which delayed the timely correspondence and collection of taxpayer liability and increase postage costs due to the need to resend mail multiple times.

DISCUSSION:

The ITS is designed to allow a taxpayer, to have multiple addresses designated as primary, mailing and location addresses. For example, an individual income taxpayer may have a primary address and a mailing address where they want to receive their mail; and a business may have a primary address and a separate mailing address for each tax type such as business franchise, sales and use, and withholding taxes, as well as location addresses. All of these addresses are stored in a relational database. While it is acceptable to have multiple addresses to fit business needs, we found that the incorrect address was used to send notices to taxpayers.

OIO performed a walk-through of certified mail returned to the Compliance Administration. Of the 84 pieces of returned mail reviewed (61 undelivered collections notices generated by ITS, and 13 undelivered audit notices generated manually by the tax auditors), we found that USPS is unable to deliver the certified notices generated by the ITS mailing program because the wrong mailing address was used. In the notices generated manually, we found tax auditors sent notices to the taxpayers' old addresses, instead of the available new addresses shown in ITS taxpayers' profiles. We also found that taxpayers' new addresses are being recorded in ITS Note fields; however, the taxpayers address profile is not updated. In one instance, we found a deceased taxpayer was sent a notice to the old address while there is a Probate Court Certificate noted in ITS.

Quality control should be performed on notices being sent out to the "Best Known" taxpayers' addresses where the taxpayers have multiple mailing addresses, and other special circumstances that are not built into the ITS mailing program logic.

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RECOMMENDATIONS:

The DCFO, OTR direct the Compliance Administration to:

8. Perform quality control review (on a trending/sampling basis) on returned collection and/or audit notices to ensure that "best known" addresses are used for future mailings to those taxpayers who have special addresses that are not designed into the ITS mailing program logic.
9. Train employees to select the "best known" address when mailing manual certified mail and notices.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 8)

We will perform a quality control review of mail returned with addresses that do not conform to the ITS mailing program logic. We will determine why they were released for mailing and take the necessary steps to stop them from being mailed in the future whenever possible. This will be an ongoing process.

OIO Comment

OTR planned corrective action is responsive and meets the intent of the recommendation.

Management Response (Recommendation 9)

OTR will issue a directive concerning the addresses of taxpayers and how and when they need to be updated in the system. We will also train employees on methods of verifying the address on manually preparing items for mailing to reduce the volume of returned mail. This will be completed by January 31, 2012.

OIO Comment

OTR planned corrective action is responsive and meets the intent of the recommendation, when fully implemented.

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FINDING 4: CERTAIN OTR EMPLOYEES ARE ABLE TO UPDATE THEIR OWN ADDRESSES IN ITS

SYNOPSIS:

ITS access security requires that each ITS user have a profile defining their security access privileges to the system. OTR has implemented procedural and system changes to tighten the ITS access security. However, the external auditor its FY 2010 Yellow Book General Information Technology findings noted that OTR fails to consistently restrict privileged and general user access to key financial applications in accordance with employees job responsibilities and/or segregation of duties considerations. Our finding below disclosed that these conditions still exist.

DISCUSSION:

Our test work on address changes (i.e., ITS data warehouse query as of April 13, 2011, on ITS Taxpayer Entities addresses changed by OTR employees) revealed that certain OTR employees are able to update their own addresses in ITS. This is due to the fact that ITS access security profiles allow certain OTR employees to have ITS access and update capabilities on their own tax profiles.

The application of sound segregation of duties requires that OTR employees have no access or update ability on their own tax entity profiles in ITS.

RECOMMENDATION:

The DCFO, OTR and the CIO jointly:

10. Review and restrict the ITS access security profiles for its employees to ensure that no employees have ITS access or update capability on their own tax profiles (e.g., put them on restricted access list).

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 10)

OTR has already begun another review of employee access and security profiles. We have already restricted some additional employees from the ability to make changes in the system that would affect their accounts including the address field. Employees are placed in the

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restricted access file. The number of OTR employees with access to the restricted accounts is limited. We will take a second look at the entire process to determine if further tightening of controls is possible. This will be completed by March 31, 2012.

OIO Comment

OTR planned corrective action is responsive and meets the intent of the recommendation, when fully implemented.

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FINDING 5: ITS DATA INTEGRITY REQUIRES IMPROVEMENT

SYNOPSIS:

Data integrity is the cornerstone of the multi-users reliance on an Enterprise Resource Planning (ERP) application such as ITS. However, during our audit, we noted certain exceptions that raised the need for regular quality control reviews to be performed on ITS data integrity.

DISCUSSION:

Our walk-through testing revealed numerous instances of poor quality of taxpayer's data integrity. Specifically, we noted the following:

- Five instances where one taxpayer has multiple account profiles in ITS (i.e., when their scanned amended return was inserted to another account profile). Because the taxpayer has multiple account profile, we noted incidences where the taxpayer payments for one particular tax year were unapplied to the related tax liability.
- Taxpayers with unapplied payments to their ITS account received notices to collect the outstanding debts, although they already paid.
- One instance where a taxpayer living at the same location having two SSN's because the taxpayer's amended return was scanned and then manually edited with a different SSN.

RECOMMENDATION:

11. The DCFO, OTR take action to improve the ITS data integrity by:

- (a) Requesting the TSG to produce a report of taxpayers with multiple account profiles in ITS on a regular basis.
- (b) Requesting the TSG to produce a report of taxpayers with multiple tax identities in ITS on a regular basis.
- (c) Reviewing the reports, to determine whether those tax payers should have multiple account profiles, and/or multiple tax identities, and perform the necessary corrections.

Findings and Recommendations

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 11)

We will request the TSG to produce the listed reports as suggested and will review the results to determine if it is possible to make the number of corrections necessary. If the process appears to be workable, OTR will have reports produced monthly or quarterly and make the necessary changes. If the reports are voluminous, we will consult with OIO for further suggestions. OTR is mindful that we are in the process of preparing to implement a new system and data cleanup will be an important part of the process. This request will be completed by December 31, 2011.

OIO Comment

OTR planned corrective action is responsive and meets the intent of the recommendation.

Exhibit 1: SUMMARY OF POTENTIAL BENEFITS FROM AUDIT

Recommendation Number	Deputy Chief Financial Officer, Tax and	Chief Information	Description of Benefit	Amount and Type of Benefit	Agency Reported Estimated Completion Date	Status ¹
1	X		Improve OTR Mail Return Suppression Process.	Improvement on Future Revenue Collection Internal Control	6/30/2012	Open
2	X	X	Improve ITS Taxpayer Address Update process.	Internal Control	1/31/2012	Open
3	X	X	Improve ITS Taxpayer Address Update process.	Internal Control	Ongoing	Open
4	X	X	Improve ITS Taxpayer Address Update process.	Internal Control	Ongoing	Open
5	X	X	Improve ITS Taxpayer Address Update process.	Internal Control	6/30/2012	Open
6	X	X	Improve ITS Taxpayer Address Database.	Internal Control	6/30/2012	Open
7	X	X	Improve ITS TAR Address Change Update Process	Internal Control	Ongoing	Open
8	X		Reduce Undelivered Mail	Internal Control	Ongoing	Open
9	X		Reduce Undelivered Mail	Internal Control	1/31/2012	Open
10	X	X	Improve ITS Access Security Internal Control.	Internal Control	3/31/2012	Open
11	X		Improve ITS Taxpayer's Account Data Integrity.	Internal Control	12/31/2011	Open

¹ This column provides the status of the recommendation as of the report date. For final reports "Open" means management and the OIO are in agreement on the action to be taken, but the action is not complete. "Closed" means that management advised that the action taken needed to correct the condition is complete. If a completion date was not provided the date of management's response was used. "Unresolved" means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

Exhibit 2: AGENCY RESPONSE

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF TAX AND REVENUE



Stephen M. Cordi
Deputy Chief Financial Officer

MEMORANDUM

TO: William J. DiVello, Executive Director
Office of Integrity and Oversight

FROM: [REDACTED] Deputy Chief Financial Officer
Office of Tax and Revenue

DATE: December 15, 2011

SUBJECT: DRAFT REPORT on the Audit of Internal Controls over Undelivered Mail and Address Change Processes at the Office of Tax and Revenue (Report Number: OIO: 10-2-26-OTR)

The Office of Tax and Revenue concurs with the findings of the Office of Integrity and Oversight concerning the five internal control issues concerning undelivered mail and address change processes for individual and business tax entities.

OIO recommendation:

1. The DCFO, OTR direct the Compliance and Customer Service Administrations to remove the unnecessary mail suppressions by the following actions:

- (a) Request the CIO/TSG to produce a report of ITS mail suppressions with accounts receivable (by taxpayer entities) for review by the Compliance Administration and ITS mail suppression (by tax entities) for review by the Customer Service Administration.
- (b) Direct the administrations to systematically review the reports to determine: (a) whether the mail suppression reason is still valid; (b) whether the accounts receivable is still collectible. Based on these results, suppressions should be removed as necessary.

Response: OTR will ask the CIO/TSG to produce reports of ITS mail suppressions with accounts receivable (by taxpayer entities) and ITS mail suppressions (by tax entities) for review by the respective administrations. They will be directed to determine the validity of the suppressions and based on those determinations make the necessary adjustments. It is anticipated that the reviews will begin in February and will take several months to accomplish without disrupting the work requirements during the filing season. We would anticipate a catch up date for reviews of June 30, 2012.

Exhibit 2: AGENCY RESPONSE

OIO: 10-2-26-OTR
(Undeliverable Mail/Address Change Processes)
December 15, 2011
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2. Review the ITS mailing program hierarchical table that updates new addresses from current tax year (TY) returns to ensure that the program updates the taxpayers primary and mailing addresses where the current tax return captures the correct and more up-to-date information about the tax payer address so that ITS generates correct and proper USPS mailing labels for OTR outgoing mail.

Response: OTR has asked CIO/TSG to review the mailing program hierarchical table to determine if it updates the new address from current tax year (TY) returns to ensure the program updates the taxpayer's primary address. If it is not making the corrections we will ask TSG for a level of effort to make corrections and will request changes as appropriate. This review should be completed by January 2012.

3. Develop and maintain statistics on how many pieces of returned mail are processed and resolved (i.e., the release of mail return suppression) by OTR on a regular basis to timely identify problems with the mailing programs.

Response: OTR has developed a chart to track the pieces of returned mail and how they are processed and resolved. We will attempt to identify root causes of the returned mail. This will be an ongoing process.

4. Produce a report of taxpayers with blank address fields on a regular basis.

Response: We have asked TSG to develop a report that is produced monthly to identify the taxpayer accounts with blank address fields. We will attempt to identify the cause for the blank fields and, if possible, the area responsible for their generation. This will be an ongoing process.

5. Direct the appropriate OTR administration (Customer Services/Return Processing) to review the report, and to determine: (a) whether those taxpayers address fields should be blank, or perform the necessary corrections; (b) conduct training classes for those OTR employees who are consistently updating taxpayers' related party fields to "blanks".

Response: OTR will direct all appropriate administrations to review the report and determine if the blank field resulted from their actions and if the blank field is appropriate. If a blank field is appropriate, we will try to determine why the employee thought it should be blank, and we will hold training sessions to re-educate the employees on the proper entry procedures. We expect to complete this by June of 2012.

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6. Amend ITS taxpayer's address fields manual "related party update" program so that "blanks" are not allowed, unless it is specifically end-dated, suppressed, and explained. A cost benefit analysis should be performed prior to any amendments.

Response: OTR will have CIO/TSG do a cost benefit analysis and level of effort study of the issue and determine if it will be prudent to make any modifications to the system. We will make the study and our decision known to OIO by June 30, 2012.

7. Review all TAR exceptions reports promptly and update "best known" taxpayer addresses.

Response: We will have all TAR exceptions reports reviewed timely and the taxpayer addresses updated to the "best known" address.

8. Perform quality control review (on a trending/sampling basis) on returned collection and/or audit notices to ensure that "best known" addresses are used for future mailings to those taxpayers who have special addresses that are not designed into the ITS mailing program logic.

Response: We will perform a quality control review of mail returned with addresses that do not conform to the ITS mailing program logic. We will determine why they were released for mailing and take the necessary steps to stop them from being mailed in the future whenever possible. This will be an ongoing process.

9. Train employees to select the "best known" address when mailing manual certified mail and notices.

Response: OTR will issue a directive concerning the addresses of taxpayers and how and when they need to be updated in the system. We will also train employees on methods of verifying the address on manually preparing items for mailing to reduce the volume of returned mail. This will be completed by January 31, 2012.

10. Review and restrict the ITS access security profiles for employees to ensure that no employees have ITS access or update capability on their own tax profiles (e.g., put them on restricted access list).

Response: OTR has already begun another review of employee access and security profiles. We have already restricted some additional employees from the ability to make changes in the system that would affect their accounts including the address field. Employees are placed in the restricted access file. The number of OTR employees with access to the restricted accounts is limited. We

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will take a second look at the entire process to determine if further tightening of controls is possible. This will be completed by March 31, 2012.

11. The DCFO, OTR take action to improve the ITS data integrity by:

- (a) Requesting the TSG to produce a report of taxpayers with multiple account profiles in ITS on a regular basis.
- (b) Requesting the TSG to produce a report of taxpayers with multiple tax identities in ITS on a regular basis.
- (c) Reviewing the reports to determine whether those tax payers should have multiple account profiles, and/or multiple tax identities, and perform the necessary corrections.

Response: We will request the TSG to produce the listed reports as suggested and will review the results to determine if it is possible to make the number of corrections necessary. If the process appears to be workable, OTR will have reports produced monthly or quarterly and make the necessary changes. If the reports are voluminous, we will consult with OIO for further suggestions. OTR is mindful that we are in the process of preparing to implement a new system and data cleanup will be an important part of the process. This request will be completed by December 31, 2011.

If you have any further questions, please contact Glen Groff, Director of Operations, at 442-6499.

cc: [REDACTED]

Exhibit 2: AGENCY RESPONSE
